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SUBJECT: IRAQI MINISTER OF FINANCE JABR

Classified By: AMB CHILL for reasons 1.4 (b) and (d)

¶1. (SBU) Summary: In the Ambassador,s meeting with Finance Minister Jabr, they discussed the Minister,s approval for financing of the GE deal, the need for flexibility in bidding rounds to increase oil production, the need to encourage the World Bank to provide financing to complement the USD 5.5 billion International Monetary Fund (IMF) Stand By Arrangement under negotiation, prospects for Kuwait to agree to reduced compensation payments, the Minister,s intention to attend the Investment Conference in Washington in a delegation led by DPM Barham Saleh (even if he is the PM of the KRG by that time), and the GOI,s desire to press ahead with a Ministerial meeting on the International Compact with Iraq, moving the date to early November. Minister Jabr was cordial through-out the discussion and expressed appreciation for USG assistance and support. End Summary.

GE Financing

¶2. (SBU) Ambassador Hill met Finance Minister Jabr and his senior advisor, Dr. Azez Jafar, August 5. Within minutes of sitting, the Minister announced &good news8 on financing the GE deal. He had just concluded a meeting with the Minister of Electricity and the Deputy Governor of the Central Bank of Iraq in which they agreed that the Ministry of Finance (MOF) would issue t-bills to finance the GE deal. Jabr provided a copy of a letter from the Speaker of the Parliament that specified that Parliament,s prohibition against the MOF issuing domestic debt without CoR approval pertained to &bonds,8 not &t-bills.8 Jabr pledged to sign the order the next day for the CBI to issue these bills. While there are still procedures to affect the transfer of funds to GE, Dr. Azez thought the process should go smoothly. The Ambassador expressed his appreciation and noted that meeting such obligations is important to Iraq,s overall investment climate.

Oil Production

¶3. (SBU) In response to the Ambassador,s question about the outcome of the first bidding round for oil production, Jabr replied that he was disappointed that only one field was successfully awarded, but public reaction was not negative. Jabr lamented that Iraq had not started several years earlier to scale up production, which would have helped prevent current budget difficulties. He had recently met with Oil Ministry officials and encouraged them to proceed with the next round, but noted that they should be more flexible in accepting bids. Jabr conceded that the Ministry of Oil was probably hesitant to be too flexible for fear of being criticized in Parliament, particularly in the run-up to the elections.

IMF Stand By Arrangement

¶4. (SBU) Iraq,s budget difficulties have moved them to re-engage with the IMF on a Stand By Arrangement. The Minister explained that initial meetings with IMF staff in Amman, Jordan in June had resulted in an agreed roadmap. He had presented this roadmap to the Cabinet which had authorized him to proceed with the negotiations. A round of technical discussions took place in Beirut at the end of July, which Jabr said had set the stage for the arrangement to be signed in early October, just before the World Bank/IMF

Annual Meetings in Istanbul October 4-5. One difficult issue in the technical talks, according to the Minister, was the IMF's suggestion to implement a fuel price adjustment. The Fund has argued that the GOI should continue to raise prices to avoid the reemergence of direct subsidies. The GOI has made adjustments before, but now was not the time to make another adjustment, in the Minister's view. The Minister asked the USG to support the Stand By Arrangement. Asked the USG to support the Stand By Arrangement.

15. (SBU) The Ambassador asked about lending from the World Bank and whether the Minister had met with World Bank President Zoellick. Jabr claimed that he had met Zoellick on several occasions and noted the GOI interest in additional World Bank lending. Dr. Azez noted that the World Bank had offered to increase the amount of project lending presently on offer from USD 500 million to possibly USD 700 million. As he watched the television screen flash an uptick in oil prices, the Minister grinned and mused &Maybe we won't need it!8

Debt

16. (C) The Ambassador explained that the USG is working within the UN to shape a deal that would result in a reduction in the level of the automatic compensation payments that go from Iraq's oil revenues to pay Kuwait. He advised that as long as the issue was about war reparations, Iraq had a good chance of success in getting the payment gradually reduced from the current 5 percent of oil revenues, to 2.5 percent, then 1.0 percent and eventually eliminated. If the debt issue were to become entangled with border issues, then the outlook would not be clear. The Minister agreed, then launched into a history of Iraqi-Kuwaiti relations, previous attempts to settle the debt issue, and his views on the border dispute.

17. (SBU) The Minister lamented that other Arab nations had not reduced Iraq's debt in line with terms of the Paris Club. He noted that among the European nations, Poland still has not signed on to Paris Club terms. The bilateral agreement between Iraq and Poland has been concluded but the Polish Finance Minister has not signed it. The Ambassador agreed to take up the issue, recalling the days when the Polish Government sought debt forgiveness as it began with its economic reforms.

Boeing

18. (SBU) The Ambassador noted that progress payments to Boeing had not been made by the July due date. Jabr offered that budget considerations had pushed off the payment to September. He also asserted that Qatar had offered to buy into the deal, with the Qatari government perhaps purchasing some of the planes and leasing them back to Iraqi Airways.

Customs Duty

19. (SBU) The Ambassador recalled a letter he had written to the Prime Minister seeking relief from import duties for imports of goods purchased with USG assistance funds. The PM had agreed and Minister Jabr had instructed a MOU be drafted to implement the arrangement. However, the DG of Customs appears not to have been aware of these developments and feigned ignorance in a meeting with Embassy representatives. The Minister instructed Dr. Azez to follow up.

Investment Conference

110. (SBU) The Ambassador asked whether the Minister would attend the Iraq-US Investment Conference slated for October 20-21 in Washington. The Minister said that he planned to do so and that the GOI delegation would be led by Barham Saleh. Asked whether Barham would do so even if he became the Prime Minister of the Kurdistan Region, Jabr replied in the affirmative, opining that it would be a &nice touch8 to have the KRG lead the GOI delegation.

ICI

111. (SBU) When asked about preparations for the planned ministerial meeting of the International Compact with Iraq (ICI) in Baghdad this fall, the Minister said that he had met with UN representatives the previous day and agreed to send a paper to them in the next three days listing GOI accomplishments and strategy for the future. He thought that

the ministerial could still take place in the fall, but suggested to Azez that the date be moved to early November. Azez said that the prime minister,s office would direct that a committee be formed to handle logistics and prepare for the conference.

HILL